

Message Text

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ACTION ARA-14

INFO OCT-01 EA-10 ISO-00 SOE-02 AID-05 CEA-01 CIAE-00
COME-00 DODE-00 EB-08 DOE-15 H-01 INR-10 INT-05
L-03 NSAE-00 NSC-05 OMB-01 PM-05 USIA-06 OES-07
SP-02 SS-15 STR-07 TRSE-00 ACDA-12 /135 W
-----056941 312220Z /75

R 301620Z MAR 78
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TO SECSTATE WASHDC 6860
INFO AMEMBASSY TOKYO
AMEMBASSY ROME
AMCONSUL RIO DE JANEIRO
AMCONSUL SAO PAULO

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E.O. 11652: NA
TAGS: EMIN, BR, JA, IT
SUBJECT: GO-AHEAD ON TUBARAO STEEL PROJECT

REF: 77 BRASILIA 8191

1. SUMMARY: AFTER SEVERAL MONTHS OF NEGOTIATIONS,
BRAZIL AND JAPANESE/ITALIAN PARTNERS IN TUBARAO PROJECT
RESOLVED REMAINING DIFFICULTIES ON MARCH 16, AND
AGREED TO BEGIN CONSTRUCTION OF 3 MILLION TON-PER
YEAR STEEL PLANT IN NEAR FUTURE. REVISED AGREEMENT
BETWEEN 3 PARTNERS CALLS FOR BRAZIL TO ABSORB HALF
OF TWO FOREIGN PARTICIPANTS SHARE OF TUBARAO (SLAB) STEEL
OUTPUT FOR FIRST THREE YEARS OF PROJECT'S OPERATION (PREVIOUSLY
ITALIANS AND JAPANESE WERE EACH RESPONSIBLE FOR 20 PERCENT OF
TUBARAO'S TOTAL OUTPUT). AGREEMENT ALSO CALLS FOR JAPANESE
SUPPLY (IN THE FORM OF LONG-TERM LOAN) OF AT LEAST AN
ADDITIONAL \$500 MILLION (IF NOT ALL) OF BRAZIL'S
SHARE OF PROJECT FINANCING-- NOW ESTIMATED AT \$700-
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750 MILLION, UP FROM EARLIER \$613 MILLION -- WITH
ITALIANS (POSSIBLY) PROVIDING REMAINING \$200-250
MILLION. TERMS OF BRAZILIAN REPAYMENT OF PLANNED
LOAN NOT YET CLEAR, BUT MAY POSSIBLY INVOLVE
MORATORIUM OF SEVERAL YEARS AND 10-YEAR PAYBACK
SCHEDULE. TUBARAO IS NOW OFFICIALLY SCHEDULED TO
BEGIN OPERATION IN 1982, WITH SITE PREPARATION CON-

TRACTS TO BE SIGNED IN LATE MARCH AND WORK AT TUBARAO'S ESPIRITO SANTO LOCATION TO BEGIN SHORTLY THEREAFTER. END SUMMARY.

2. BACKGROUND: TUBARAO PROJECT HAS BEEN THE SUBJECT OF A CONTINUING DEBATE FOR SOME MONTHS, BOTH WITHIN THE BRAZILIAN GOVERNMENT AND BETWEEN BRAZILIANS AND THEIR JAPANESE AND ITALIAN PARTNERS. INTERNALLY, DEBATE CENTERED AROUND A POSSIBLE CHANGE IN THE PROJECTED PLANT'S OUTPUT MIX (I.E. LESS SLAB OUTPUT, SOME FINISHED STEELS). HOWEVER, COMPANHIA SIDERURGICA NACIONAL (CSN) AND COMPANHIA SIDERURGICA PAULISTA (COSIPA) OFFICIALS ARGUED THAT PROPOSED CHANGE IN TUBARAO'S PRODUCTION WOULD HAVE HAD A SERIOUS NEGATIVE EFFECT ON THE OPERATIONS OF THESE TWO PLANTS IN THE EARLY 1980'S I.E. FINISHED STEEL OUTPUT POSSIBLY CURTAILED BECAUSE OF LACK OF SUFFICIENT SLAB (SEMI-FINISHED) STEEL SUPPLIES, ORIGINALLY PLANNED TO BE OBTAINED FROM TUBARAO). IN ADDITION, FORCEFUL REPRESENTATIONS BY MINAS GERAIS STATE OFFICIALS OVERWHELMED A TENTATIVE GOB INITIATIVE TO MODIFY ACOS DE MINAS GERAIS S.A. (ACOMINAS) OUTPUT TO COMPENSATE FOR POSSIBLE CHANGES AT TUBARAO. SUM OF ARGUMENTS AGAINST CHANGES PROVED COMPELLING AND ORIGINAL TUBARAO PLAN (AND OUTPUT) WAS REAFFIRMED.

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3. ONCE INTERNAL DEBATE SUBSIDED, BRAZILIAN NEGOTIATORS INCREASED PRESSURE ON THEIR OVERSEAS PARTNERS TO RESOLVE FINANCING AND DISPOSAL-OF-OUTPUT ISSUES, REMAINING STUMBLING BLOCKS TO PROJECT INITIATION; RECENTLY-ANNOUNCED AGREEMENT WAS THEN (RELATIVELY) QUICKLY HAMMERED OUT. END BACKGROUND.

4. BEGIN COMMENT: BEGIN LIMITED OFFICIAL USE. CONTRARY TO INFORMATION CONTAINED IN REFTEL, LOCAL LOGISTICAL AND INFRASTRUCTURE PROBLEMS (ESPECIALLY WORKER HOUSING) AT TUBARAO'S ESPIRITO SANTO SITE WERE NEVER A SIGNIFICANT FACTOR IN DECISION-MAKING PROCESS REGARDING PROJECT'S FUTURE. THROUGHOUT TUBARAO'S LONG GESTATION, KEY FACTORS WERE: RESOLUTION OF INTRA-BRAZILIAN GOVERNMENTAL PROBLEMS NOTED ABOVE; DIFFICULTIES ASSOCIATED WITH DISPOSITION OF INITIAL THREE YEARS' OUTPUT; AND, TO A LESSER EXTENT, REFINANCING OF BRAZIL'S SHARE OF PROJECT. HOWEVER, ACTUAL PACE OF FORWARD MOVEMENT ON TUBARAO REMAINS TO BE SEEN. INDUSTRY OBSERVERS DOUBT THAT PROJECT

WILL BE COMPLETED AND PRODUCTION WILL BEGIN AS SCHEDULED-- I.E. IN 1982 -- BUT MANY BELIEVE THAT NOW GO-AHEAD HAS BEEN DECIDED ON, TUBARAO PROJECT WILL BE GIVEN A REASONABLE DEGREE OF PRIORITY, IF ONLY BECAUSE OF CSN AND COSIPA'S PRESSING NEED FOR SEMI-FINISHED STEEL SUPPLIES IN EARLY 1980'S. (FYI: BEST ESTIMATE FOR ACTUAL TUBARAO PRODUCTION STARTUP IS LATE 1983 OR EARLY 1984).

5. TERMS OF NEW FINANCING PACKAGE, WHEN REVEALED, WILL PROVIDE USEFUL INSIGHT INTO KIND OF DEAL BRAZILIANS WERE ABLE TO OBTAIN WITH OVERSEAS PARTNERS: I.E., IF RELATIVELY FAVORABLE, FINANCING WILL DEMONSTRATE STRENGTH OF JAPANESE (AND ITALIAN) LIMITED OFFICIAL USE

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DESIRE TO MOVE FORWARD ON PROJECT. (FYI. SIZEABLE EQUIPMENT PURCHASES FROM TWO COUNTRIES WILL, NO DOUBT, HAVE ALSO WEIGHED HEAVILY IN LATTER'S CALCULATIONS.)

6. AT SAME TIME, IT SHOULD BE KEPT IN MIND THAT ALL THREE COUNTRIES -- ESPECIALLY BRAZIL -- HAVE CERTAIN AMOUNT OF NATIONAL PRESTIGE TIED UP WITH PROJECT, AND DURING THE LONG AND ARDUOUS NEGOTIATING PROCESS, NO SERIOUS ATTEMPTS WERE APPARENTLY EVER MADE TO DERAIL TUBARAO, IN SPITE OF RECESSED CONDITIONS IN WORLD'S STEEL INDUSTRY AND ON EXPORT MARKETS VITAL OT THE DISPOSITION OF A SIGNIFICANT PART OF PLANT'S OUTPUT. IN PARTICULAR, DOGGED PERSISTENCE WITH WHICH GOB PLANNERS PURSUED PROJECT WAS A CLEAR EARNEST OF THEIR DETERMINATION TO MOVE PROJECT FORWARD, REGARDLESS OF RELATIVELY UNFAVORABLE COMMERCIAL ENVIRONMENT. IN OTHER WRDS, PROJECT HAD A BUILT-IN, ULTIMATELY IRRESISTIBLE IMPETUS, DERIVED LARGELY FROM THESE PRESTIGE CONSIDERATIONS. (BASED SOLELY ON ECONOMIC FACTORS, IT IS NOT BELIEVED THAT THREE COUNTRIES WOULD HAVE PROCEEDED WITH TUBARAO).

7. THUS, POLITICAL AND NATIONAL PRESTIGE FACTORS, PLUS TUBARAO'S IMPORTANT ROLE IN BRAZIL'S OERALL STEEL PLAN (PARTICULARLY AS FURNISHERS OF A LRGE PART OF COSIPA AND CSN'S SLAB SUPPLIES IN THE 1980'S) -- AND A PROBABLE JAPANESE DESIRE NOT TO BE SEEN TO BE NON-COOPERATIVE ON A HIGHLY-BISIBLE MAJOR PROJECT LAUNCHED WITH GREAT FANFARE -- ALL CONTRIBUTED TO TUBARAO'S EVENTUAL FORWARD MOVEMENT, IN SPITE OF THE IMPRESSIVE SERIES OF OBSTACLES ENCOUNTERED OVER THE LAST TWO YEARS. END COMMENT. END LIMITED OFFICIAL USE. JOHNSON
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: CONSTRUCTION, FOREIGN INVESTMENT, STEEL PLANTS
Control Number: n/a
Copy: SINGLE
Draft Date: 30 mar 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978BRASIL02518
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D780141-0001
Format: TEL
From: BRASILIA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t19780310/aaaaaidq.tel
Line Count: 175
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: a3fd80b7-c288-dd11-92da-001cc4696bcc
Office: ACTION ARA
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 77 BRASILIA 8191
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 05 may 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: N/A
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 3099101
Secure: OPEN
Status: NATIVE
Subject: GO-AHEAD ON TUBARAO STEEL PROJECT
TAGS: EMIN, EINV, ECRE, BR, JA, IT
To: STATE
Type: TE
vdkgvwkey: odbc://SAS/SAS.dbo.SAS_Docs/a3fd80b7-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014